

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

PHI ACQUISITIONS NSA

Docket No. MC2014-21

PHI ACQUISITIONS NSA

Docket No. R2014-6

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 1, QUESTIONS 10 AND 11**
(April 8, 2014)

The United States Postal Service hereby provides its responses to Chairman's Information Request (CHIR) No. 1, Questions 10 and 11. CHIR No. 1 was issued March 19, 2014, and responses were due by March 25, 2014. Responses to Questions 1-9, and 12, were provided on March 26, 2014. Attached are the responses to Questions 10 and 11. Each question is reprinted verbatim in the attached, and is followed by the Postal Service's response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing and Product Support

Elizabeth A. Reed

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 268-3179, Fax -6187
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10. The following questions refer to PHI_NSA_Financials.FINAL.xlsx.
- a. On pages 12-13 of the Notice, the Postal Service states that it “estimates that the total volume of PHI's Eligible Standard Mail Flats (CR flats with IMb) will increase by about one percent (1.0%) per year in the absence of this NSA over the course of the next five years provided that projected current and future economic conditions do not deviate significantly from Postal Service projections.” Please explain why the “Before Rates Volumes” in Tab Inputs, Cells H174 through L174 reflect an annual decrease in volume of approximately one percent per year.
 - b. Please refer to Tab Inputs, Cells C174 through F174. The historical volume for the Potpourri Group reflects an approximate annual increase in volume of one percent from 2010 through 2013. In light of this increasing trend, please explain why the projected volume for 2014 in Tab Inputs, Cell G174 and the “Before Rates Volumes” in Tab Inputs, Cells H174 through L174 reflect an approximate one percent decrease in volume from 2013.

RESPONSE:

- a. The quoted sentence in the Postal Service's Notice should have stated “decrease” rather than “increase”. The volumes reflected in Tab Inputs, Cells H174 through L174 are correct.
- b. In developing the trend volume for PHI, the Postal Service analyzed PHI's existing four-year trend and adjusted for statistical outliers. In addition, when viewing the raw data we also adjusted for recent catalog title acquisitions, which gave the appearance of increasing volumes, when in fact the volumes were not part of organic growth. Furthermore, we adjusted for the growth in Carrier Route volume as a percentage of the total volume, which creates a false appearance of volume growth in PHI Eligible Mail. We also tracked the most recent volumes for Standard Mail Flats and Carrier Route Flats as reported by RPW for the last half of FY 2013. For both Quarters 3 and 4 these volumes, service-wide, were down significantly from both SPLY and the

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trend we had been seeing earlier in the year. The adjustments were made judgmentally, based on experience with catalog volumes, and in light of customer discussions, knowledge of industry economics (particularly catalog industry), and expectations for the effects of future general economic conditions on volume and revenue growth. For these reasons, it is our belief that the data presented fairly represent the expected PHI volumes over the next 5 years, in the absence of an NSA.

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11. Section III.D of the Agreement describes the revisions to the Annual Volume Threshold and the following Quarterly Baseline Volumes in the event that, between November 1, 2013 and the Implementation Date of the Agreement or during the term of the Agreement, "there are postal rate increases or changes in classification or classes or other changes on Standard Flats mail or FSS pricing that would result in a year-over-year Increased Total Annual Postage ("Increased Total Annual Postage") for PHI Eligible Mail greater than twenty (20) basis points more than the January CPI-U preceding the implementation of that postal change." Notice, Attachment B at 5. Under the Agreement, if the Increased Total Annual Postage is greater than 20 basis points more than the January CPI-U, the volumes would be adjusted by applying an Adjustment Percent to the volumes. The Adjustment Percent is derived from multiplying the percentage increase by a factor of 1.4. *Id.* at 6.
- a. Please explain how the factor used to calculate the Adjustment Percent (1.4) was developed. Please provide any underlying calculations.
 - b. Please confirm that the Postal Service's financial workpapers do not reflect any adjustment to the Annual Volume Threshold as a result of the exigent rates that went into effect January 26, 2014. If confirmed, please provide revised workpapers reflecting the impact of the exigent price increase. If not confirmed, please explain.

RESPONSE:

- a. The factor was negotiated with PHI based on the behavioral characteristics of PHI's internal models and business practices, as well as the methodology used by PHI to plan mail volume, which uses variable costs such as postage to make economic decisions on how deeply to mail rank-ordered cells, lists, or household segments.
- b. Confirmed. Revised workpapers are attached.